

FAR EASTERN ECONOMIC REVIEW

FINANCE, TRADE & INDUSTRY

Vol. I.

Hongkong, November 13th, 1946.

No. 5.

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The Treaty Between United States and China

When on January. 11, 1943 the United States signed in Washington an Agreement for the "Relinquishment of Extraterritorial Rights in China", it was stipulated that within several months after cessation of hostilities China would conclude a commercial pact with U.S. On November 4, 1946 China and U.S. signed in Nanking a "Treaty of Friendship, Commerce and Navigation" which treaty supersedes provisions of all previous agreements, viz. Treaty of Peace, Amity & Commerce (the basic treaty between the two countries) signed at Wang Hiya 1844; Treaty of Peace, Amity and Commerce, 1858; Treaty of Establishing Trade Regulations & Tariff, 1858; Treaty of Trade, Consuls & Emigration, 1863; Immigration Treaty, 1880; Treaty as to Commercial Intercourse & Judicial Procedure, 1880; Treaty as to Commercial Relations, 1903; Treaty Establishing Rates of Duty on Imports into China, 1920; Treaty Regulating Tariff Relations, 1928.

The Treaty of Friendship, Commerce and Navigation comprises 30 articles to which is attached a Protocol of 10 points; the document contains about 11,000 words. The Treaty will remain in force until November 1951. If one partner desires not to renew the Treaty notice for termination has to be given one year prior to expiry.

The Treaty is built on the basis of reciprocity between American and Chinese persons, corporations and associations; and is based on the Most-favoured-Nation clause providing that treatment not less favourable than accorded to any third country shall be accorded to nationals and corporations of U.S. and China.

The Treaty stipulates that persons, corporations and associations of both countries shall be allowed to exercise all rights and privileges upon the same terms in each other's territories. Much emphasis is laid on reciprocity and equal rights; most of the articles repeat in similar or varying form the motivating desire of the governments of the two countries: to establish the same status for their own nationals and the nationals of the other country in every form of business; and that there shall not be any influence to the disadvantage of competitive relationship between the nationals, corporations and associations of U.S. and China and any third country.

There are many exhortations that the governments shall not interfere with the business and pursuit of occupations of the foreign nationals and corporations.

But for a recital of the Decalogue the Treaty is complete in outlining and prescribing what is obvious in civilised society of the 20th Century. It almost comes as a shocking surprise that so many self-evident pre-requisites of civilised existence had to be stipulated in the framework of a treaty. The reflection on the state of affairs in a world of self-centered and covetous nations is not edifying.

Treaty Stipulations

The right to enter, reside, travel and pursue trade for Chinese citizens in America and U.S. citizens in China was affirmed; also the right to engage in commercial, manufacturing, religious and other activities; to buy, rent and erect buildings, own lands, employ clerks and servants of any nationality, and engage in all those professions which are not exclusively reserved to the native citizens of each country. Immigration laws are not affected by the stipulations referring to entry and residence.

Exploration and exploitation of mines is based on the understanding that if rights are accorded to a third country such rights have also to be accorded to U.S. or China respectively.

When dealing with protection and security for alien nationals the following points were emphasised: If a foreign national is kept in custody he "shall receive reasonable and humane treatment" and "be brought to trial promptly". Every foreign national shall have "free access to Court" like any native citizen. Properties of foreign nationals, corporations and associations shall be taken only by observing the "due process of law" and payment of just compensation shall be made in foreign exchange so as to enable the owner to transfer his proceeds abroad.

Another article (VII) stipulates that foreign nationals shall not be subject to "unlawful entry, molestation, visits, searches, inspections" but shall enjoy conditions "as favourable as prescribed for own nationals".

Article IX provides that foreign patents, inventions, trade marks and names shall be protected and no unauthorised manufacturing, imitation and falsification of foreign products shall be permitted. Literary and artistic work shall be protected from being plagiarized.

Article XII stipulates freedom of conscience and worship, and the freedom to establish schools.

From article XV on questions of trade and navigation are being dealt with. U.S. and China declare that they

"adhere to a program of elimination of discriminatory treatment and monopolistic restrictions in international commerce". Both countries are free to prohibit or restrict importation and exportation. If a government monopoly of one or both countries is to control imports, exports, distribution or production, such monopoly or public agency shall act according to principles of private enterprise (i.e. considerations of price, quality, marketability, transportation and terms of purchase).

Merchant vessels shall be accorded the same treatment whether they are of one's own or foreign nationality (warships and fishing vessels are not allowed to call on each other's ports except if permission has been secured). Nothing shall be imposed on foreign vessels tending to accord any advantage to one's own vessels (f.i. as regards duty payments, pilotage, lighthouse fees etc.).

Inland navigation and coastal trade are, of course, reserved for Chinese vessels in China and for U.S. vessels in America. If rights in this connection are accorded to any third country same rights have to be accorded to China and U.S.

Demagogy and Ignorance

were it not for the many misrepresentations and adverse comments by a number of Chinese leading papers purporting to speak for the people it would be hardly necessary to repeat the obvious, viz. that the Treaty does in no way constitute a trespass on Chinese rights. All sweeping statements, including the one in China's foremost daily "Ta Kung Pao", are based either on demagogy or ignorance of the facts. No arguments were advanced when the Treaty was lambasted but the uninformed people's rancour was exploited by smart associations of this Treaty with previous Pacts on which to look with hatred the Chinese masses were brought up.

Delegated Legislation

As Mr M. K. Lo pointed out at a recent meeting of the Legislative Council there is considerable danger inherent in the modern development of delegated legislation. At the same time it should be remembered that the Colony is still in the process of emerging from the consequences of a totalitarian war which has affected the economic position of the whole world which in turn has had serious repercussions on the local situation. The process of a planned conversion from war to peace, from military to civil activities is bound to be slow, and it is obvious that to attempt to remove too suddenly the restrictions which a planned development necessitate would precipitate grave economic social & political dangers. One has only to contemplate the disruptive results in such a stabilized and self sufficient country as the United States of a hasty policy in the removal of controls to realise the deplorable consequences that would ensue in a Colony that depends upon its prosperity on trade with other parts of the world.

The law offices of the Colony and the members of both Executive and Legislative Council must be heavily burdened with the task of tying the loose ends of proclamations and regulations of the military era and in following up the application to the Colony of the Supplies and Services (Transitional Powers) Act 1945, and the Emergency Laws (Transitional Provisions) Act 1946.

These two acts succeeded the Emergency Powers (Defence) Acts which expired on February 24, 1946 under which most of the war price regulations were made in England and applied to the Colony.

The former of the two acts is the more important. It enables certain Defence Regulations to be continued in force by Order in Council if it appears to His Majesty to be necessary or expedient to do so in order to secure the fulfilment of specified purposes. These purposes are stated to be those of so maintaining, controlling and regulating supplies and services as to achieve one of the following objects amongst others:—

- (a) to secure a sufficiency of these supplies and services which are essential to the well being of the community or their equitable distribution or their availability at fair prices;
- (b) to facilitate the readjustment of industry and commerce to the requirements of the community in time of peace;
- (c) to assist the relief of suffering and the restoration and distribution of essential supplies and services.

There is a material distinction between the objects of this Act and those of war time legislation. In the latter the object was the maintenance of supplies and services for purposes which included public safety, the defence of the realm, the maintenance of public order and the efficient prosecution of the war. In the post-war legislation the emphasis is on the conversion from the economy of war to that of peace whereas the new Act provides for the maintenance control and regulation of supplies and services essential to the life of the community. It extends to the control of comforts, luxuries and amenities which are essential not to the life of the community but to its well being. This includes rationing, price control and other devices to ensure fair distribution.

The purpose of the Emergency Laws (Temporary Provisions) Act 1946 is to prolong the life of certain Defence Regulations until the end of 1947 unless they are withdrawn before or extended after that date. It extends for instance controls where hardship would follow from their sudden cessation, and tends to the extension of liberty rather than to curtail it.

In applying these statutes to the Colony it is obvious that the power which in England would be exercised by Order-in-Council should in Hongkong be vested in the Governor-in-Council and that it would be utterly impracticable to legislate in detail on all the multitude of matters which are involved in administration.

At the same time the community will be jealous of transferring power already vested in the Urban Council and must depend upon the Governor to safeguard their interest in the method of delegation of executive authority.

Repercussions of the Sino-American Treaty

(By a Correspondent)

According to Central News, the Kuomintang's official news agency, the Supreme Defence Council, under General Chiang Kai-shek's chairmanship, approved the new Sino-American Treaty on Nov. 8. The Legislative Yuan was instructed "to complete the legislative procedure", the agency added.

On Nov. 9, Central News again reported, the Legislative Yuan composed of sixty-six members, all appointees of the Kuomintang, formally ratified the pact.

The official news agency said that questions concerning the freedom of the Press, regulations of immigration and provisions of Most-Favoured-Nation Clause were pivotal points of discussion of the two High Contracting Parties in the course of negotiation.

What were the differences the report did not disclose.

"Ta Kung Pao" described the agreement as another copy of the Treaty of Nanking of 1842 which governed the destiny of China for a hundred years.

Hongkong's leftist "Hwa Shiang Pao" headlined the news of the new convention as a duplicate of the notorious 21 Demands made by Japan in 1915. The paper insisted that China's sovereign rights were impaired, her mining rights were sold out, and American ships will control China's navigation. The paper added that there were already over 30 American ships in Shanghai's harbour. Continuing the organ of Hongkong's leftist circles stated that China's interior will be exploited by American commercial, industrial and cultural aggressors which will do much harm to the Chinese as their country will be reduced to the status of a Colony.

Hongkong Today

(By An American Correspondent)

Hongkong today faces the greatest decision of its century-old existence; it may—if it wishes—become the foremost port and place of business in the Far East; or it may continue to ignore reality and plod along, eyes to the ground, by passing the greatest opportunity which has ever come its way.

The decision rests entirely with Hongkong. It rests to some extent with the businessmen, who first saw the opportunities latent here and had the initiative to develop them. But it rests to a greater extent with Government, traditionally the planner which guides business enterprise into the most productive channels.

The initiative is here; the capital is here; the overall planning, the encouragement and the physical resources are not here.

Every day we see indications of business clamoring to set up shop in Hongkong. The list of ship arrivals grows longer daily. Each week a new bank or two opens its doors. There are more plane flights coming into Hongkong now than the Colony saw in its palmiest days before the war. The shops are full to overflowing with all manner of goods from England, America and Australia. Trade statistics show that imports and exports have almost trebled since the beginning of 1946.

These are the physical evidences of prosperity. They show that businessmen no longer are thinking about "Getting the hell out of China." They actually are getting out, salvaging whatever they can and setting up anew in the nearest logical place, which is Hongkong.

That is, they are setting up if they can afford to pay several hundred thousand dollars in tea money for a couple of tiny offices; they are setting up if they can find living space for their employees; they are setting up if they care to carry on business under the Colony's restrictive exchange control system. Otherwise they are packing up and going back home.

Today, 14 months after the Colony's liberation, there is still no adequate airport; there is no definite policy with regard to crown leases; crime and lawlessness are steadily increasing, with pilferage and smuggling in the forefront; pre-war property is tied up with miles of red tape; there is no regular postal service with the United States; the harbor is full of sunken shipping and other menaces to navigation; there is no stock exchange or sharebroker's exchange.

Government to Plan Development?

One hears vague whisperings of an overall Government plan being formulated for the development of the Colony. Exactly what such a plan encompasses—if indeed there is a plan—no one seems to know. One version has it that details of the plan may not be divulged because of the "delicate political situation".

If there is a "delicate political situation", Government must be held just as much to blame as the Chinese agitators who are inspiring it. A firm stand and more astute diplomatic procedure would have precluded any such delicate situation long ago.

Certainly the widest possible publicity given to any such plan would be the one sure way of proclaiming to the world that *Hongkong is here to stay*, and that businessmen of all nations would be encouraged, subject only to the normal practices of trade, competition and enterprise, to come here and prosper.

Business can exist here without Government; not so Government without business. If both are to prosper they must combine their respective talents, each recognizing the other's rights as well as his own duties. Surely the one duty of Government—at this particular time above all other—should be to encourage enterprise, aggressively if need be. Only in that way can Hongkong fulfill her duty to herself, to her home country and to the businessmen who brought her into the world.

America's Trading Prospects in Far East

A detailed review of U.S. Far East trade in the past and its prospects for the future is contained in New York Trust Co.'s quarterly "Index". The analysis states that there is reason to believe this country's trade with the Far East may substantially surpass pre-war levels, although it may be changed in character in some respects as the result of dislocations caused by the war.

Before the war U.S. Far Eastern trade centered on the Philippines, Netherlands East Indies, British Malaya, China and Japan, all of which sustained extensive damage during the war, and all of which have experienced changes in their relationships with the United States as a consequence of the war.

America's seven chief imports before the war were rubber, sugar, coffee, paper and pulp, vegetable oil, raw silk and tin, and of these the Far East supplied five in large quantities; more than half of four of them and almost all of three. It is obvious that considerable rehabilitation will be necessary to restore the trade to its old level, to replace the shell-torn rubber and sugar cane plantations. However, political upheavals continue to frustrate efforts at restoration.

Vast changes have taken place in the Far East as the result of the war. A realignment of economic forces in that area is now under way. U.S. has an opportunity for trade expansion there, for this region may well prove to be one of the important business frontiers of the future.

U.S. will one day face the problem of disposing of the products of an economic system augmented during the war to take care of needs outside its boundaries. Once the backlog of domestic orders has been filled it will be necessary to find markets elsewhere. Many U.S. traders believe the most fertile fields for expansion are in the areas where industrialization is still in its early stages.

Production in Far East

Eventual production outlook in the Philippines is bright, though war damage, food shortages, inflation, guerrilla warfare and black markets may retard the return to normal production for some time to come. Copra output may reach full prewar level by mid-1947, sugar in three years and Manila hemp in one year.

In the East Indies, the rubber plantations of Sumatra have been found to be in good condition, but considerable damage was done in Java. 50,000 acres of rubber plantations there are being restored, with predictions of an unusually high output for the first tap of trees.

In Malaya, rubber tapping is at about 75 percent of prewar level, but labour shortage is expected to hamper production for some time.

Tin production is still far below normal, with the destruction of large dredges and shortage of skilled workmen hindering output more seriously than was originally anticipated. Full production in some mines may be reached by 1945.

Pepper and copra industries suffered severely, with four years given as the estimate for restoration of the pepper industry on Bangka Island, one of the principal centers of production before the war. Only 0.5 percent of the 20,000,000 pepper trees on Bangka remained standing after the Japanese invasion.

Conditions in China & Japan

China difficulties in recovering from the war resulted in only limited volume of trade between that country and the United States. Inflation has reached astronomical proportions, hampering a return to normal trade. Chinese industry, unable to compete with prices of products from other countries because of the high cost of Chinese raw materials, is finding rehabilitation difficult.

Japan will regain her place as the most important trading area in the Far East. At present all Japanese-American trading is controlled by the United States government, but it is planned eventually to restore Japanese trade to private hands.

Hongkong's Constitutional and Economic Problems

The Hongkong Correspondent of "The Economist," London, described some of the local problems in the journal's Oct 19 issue as follows:

Hongkong as a Crown Colony is unique in many ways. It is also probably unique in being a city of over one million inhabitants which possesses neither a public assembly hall nor a public library. And, although there may be a community spirit in embryo, it has to be fused with the many diversities of a cosmopolitan population. When, therefore, Sir Mark Young arrived back in the Colony last May to resume his Governorship and announced the intention of HM Government to carry out a revision of the Constitution "for the purpose of giving the citizens of Hongkong a fuller and more responsible share in the management of their own affairs," he was faced with the problem of ascertaining what the citizens of Hongkong really are and how to obtain their "views and wishes." He has the unofficial members of the executive and Legislative Councils to advise him. He has sought individual views from local inhabitants and he has invited the opinion of representative bodies, which are not representative of the public but of sectional interests. He was also aware of the result of a poll of newspaper readers of whom not more than a hundred responded to an admittedly well designed questionnaire. And he has since received the report of a special committee of the Hongkong General Chamber of Commerce, an able report which examined the question of a constitutional reform from many angles but which, after submission to the 250 members of the Chamber, had evoked only two or three comments.

In a broadcast reviewing the views and opinions he had gathered, the Governor regarded the proposal of a Municipal Council as generally acceptable, and he formulated a tentative scheme for such a Council with 48 members, of whom half would be Chinese. The Chamber of Commerce report, however, had proposed a Council of 16 with various committees to which persons of special knowledge and experience should be co-opted. The Chamber's scheme envisaged a body on similar lines to that of the Shanghai Municipal Council, which during its long reign over the International Settlement adapted itself to changing conditions and some ten years before the Pacific War had blended Chinese membership with that of the original European element, producing a government body which was progressive, efficient and loyally served by a highly qualified staff of permanent officials.

The prospect of a Council of 48 at once raises the question of where the Councillors are to come from. There is no leisured class here and those best qualified to serve have their time well occupied, especially with so much extra work entailed in rehabilitation. Service on the Legislative Council is not onerous, as debates occur but rarely. Service on a Municipal Council will involve a good deal of committee work and with unquestionably cut into the day's work of the business or professional man. Because of uneasiness in the minds of those who have studied the constitutional question, the feeling at present is to let well alone. There is certainly no clear popular demand for increased representation. There may be impatience with the working of governmental machinery and a sense of frustration; but government by official majority is at least above suspicion. And yet even Hongkong cannot escape the rising tide of democracy. Sooner or later the present benevolent autocracy must be superseded. The community ought to be prepared for it by a carefully devised course of political education—for which the Central Office of Information has ample scope in a Colony which has barely heard of "public relations" and has little knowledge of the whys and wherefores of governmental policy. Intelligent publicity is urgently needed, and, while one or two government departments are now using the local press and broadcasting service in a manner which the public appreciate and which is bringing its own reward, the rest of the administration is wrapped in mystery with a consequent misunderstanding of methods and motives.

At a recent reception in Shanghai to the British Ambassador a Chinese banker complained of the flight of capital to Hongkong. For several months past there has been a steady influx not only of money but of wealthy Chinese, which in both cases are disturbing factors to the economy of the Colony. Refugee money seeking investment is having an inflationary effect and the housing shortage is rendered still more serious because of the fabulous prices offered by Shanghai immigrants as "key money" in order to obtain possession of habitable quarters. Complaints were also made regarding the illicit trade between Shanghai and Hongkong in smuggled goods. The Chinese Customs service is undermanned and overworked and can hardly be expected to cope with a trade which has assumed enormous proportions. In the course of time supplies will no doubt increase in volume and reduce the profits of smuggling, but, for the time being, the traffic is causing serious dislocation. The Hongkong Government has now issued an order prohibiting the export of locally manufactured piece goods, as it was found that the material was being woven from yarn forming part of China's relief supplies. Other steps are being taken by the Government to prevent smuggling. It is, however, a problem which has always existed, although, until the institution of a high tariff by China coupled with the abnormal state of the world's trade, it had never reached the present scale.

Efforts are being made to make up the deficiencies in the Hongkong textile market by obtaining supplies from Japan under arrangement with the occupation authorities there. Hongkong can supply certain commodities of which Japan is short and in return several million yards of rayon piece goods will be shipped here. It is hoped to obtain a good supply of rayon yarn for the local factories and possibly a certain amount of textile machinery. With cotton piece goods so hard to come by there has been a considerable increase in the import of rayon piece goods from Shanghai and in addition similar cloth of American manufacture has been reaching here via Manila at inflated prices. If this material can be obtained from Japan on a big scale, the consumer here will benefit from the lower cost and at the same time the trade will help to pay for the army of occupation.

Conditions in China According to U.N.R.R.A.

Unrra's report "Economic Recovery in Countries Assisted by Unrra" sent to UNO on Oct. 28 described conditions in China as follows:

1. Available foreign exchange resources do not permit to import enough foodstuffs to insure minimum diet of the people; and to import raw materials and equipment for full industrial employment.

2. Currency is over-valued which makes Chinese goods too expensive for foreign buyers.

Some extracts from the report follow:

Food deficits can be met only if China can obtain foreign exchange to finance the necessary imports. If imports cannot be financed, China can well face another food crisis in 1947, which would set back the slowly recovering industry.

There was widespread starvation in China and economic recovery had been spasmodic and remained largely in the blueprint stage because, firstly, large scale shipments could not start until the seaports were opened; secondly, the country faced tremendous transportation problems; thirdly, the grave political situation there.

Industrial production was being re-established in the seaports and industries which had been taken over from the Japanese were operating, but the personnel shortage and inflationary monetary situation were serious obstacles.

Rising exports were still only small, compared to imports, and the trade balance in 1947 would be heavily adverse. Recent credits and the transfer of United States Army surpluses were substantial, but only a partial offset.

In spite of the relatively large output indicated, "China's food position for 1946-47 will still be precarious, since the disrupted transportation system does not permit the transfer of food from the abundant to the scarce areas."

The cotton crop would be less than one-half of the pre-war crop, so the textile industry would need imports.

Demands by Chinese Industry

"Industrial China" has become the slogan of politicians, economists, manufacturers, exporters and a number of bankers. A new trade policy is demanded by a large number of commercial associations in China's principal cities. Protection of Chinese industries and opportunities for their development are main issues in an inner-political struggle which has grown more vehement since mid-August.

Chinese light industries (producing f.i. machinery and spindles for cotton mills), tobacco, match, vegetable oil factories are organising a campaign to compel the Government to enable them to produce for home consumption by blocking esp. U.S. imports which have so far put out of work a large number of manufacturers both in the interior and the relatively more advanced coastal areas.

One Chinese spokesman for medium and small-sized industries summed up the position as follows:

"In our effort to build a modern economy in China, it would not suffice just to bring some up-to-date industrial equipment from abroad in order to industrialize this country, nor would it be enough for us to throw away a backward China and to bring a progressive economic system from abroad. We must build and expand on this backward foundation; modernization cannot be achieved by allowing the existing economic foundation to collapse and then relying upon foreign capital and foreign technical assistance."

The medium industries operating in the interior are the hardest hit and their organisations from Chungking and Kunming lead the struggle for maintenance of their plants against foreign competition. The political implications are obvious as many medium and small-size industries have, long ago, affiliated themselves with various political parties.

The manufacturers of spinning and weaving machinery try to mobilise on their side the mill owners. They claim that national industrialisation begins in the cotton industry. One of their spokesman propounds that the manufacture of spinning machines will not only directly relieve the critical situation of the machinery works, but will indirectly help to keep the iron and steel, fuel production and electrical industries going. It will be killing several birds with one stone. The manufacture of spinning equipment should be supervised by Government and the machines produced should be purchased by both Government-operated and private cotton mills.

The Problem of China's Development

At a luncheon given by the Anglo-Chinese Chamber of Commerce in London on October 16, in honour of the British Trade Mission to China, the Lord McGowan, K.B.E., held an address which amounts to an all-comprehensive, lucid and frank analysis of present conditions in China and a diagnosis of prospects for trade, finance and industry in China.

Speech by the

LORD MCGOWAN, K.B.E.

May I say how honoured I was when Sir Donald Banks asked me to be your guest at today's lunch. It gives me the opportunity to talk for half an hour about the country which occupies the serious thought of your Chamber and of many thinking people in Great Britain.

The more frequent opportunities we have of expressing our views on our mutual problems, the sooner we shall get to understand them.

No nation has escaped the effects of the war. Some, naturally, have suffered far more than others, but none more than China. She not only fought for two years longer than her allies, but, unlike the other invaded countries, she never ceased to fight on her own soil. Her prolonged and heroic resistance has the profound admiration of the world.

The effects of this war are bound to be more lasting in China. It is not only the extra two years of fighting but the magnitude of the invasion of her vast terrain, and the terrible destruction which has taken place, which must make her task harder in peace than ours. One has only to think of the breaching of the Yellow River dykes, involving the diversion of one of the major rivers of the world, with the consequent flooding of enormous areas of arable land, to realise the immensity of the problems that lie ahead. In the great coastal areas occupied by the Japanese they converted peacetime industries to war purposes, or what they did not convert they left idle, with little or no maintenance, or destroyed.

China's communications system has suffered tremendous but not irreparable damage, her waterways have silted up, have become uncharted, her shipping has been decimated, her railways have been torn up. All these difficulties and many others exist, and we, with the rest of the world, look on with sympathy and understanding at the gigantic tasks ahead.

Britain has contributed as generously to the work of U.N.R.R.A. as our own straitened circumstances permit. We have given it the equivalent of 1% of our national income, and a substantial part of that has gone to China. But we are not content to limit our aid to this, nor do we think China can ever be happy if the tremendous tasks to be tackled are left to organisations such as U.N.R.R.A. We in Britain are anxious to restore the mutual exchange of commodities and trade, and we feel China must be too. Without this, China cannot develop and improve the living conditions of her people.

British Capital in China

In the past, British capital has been invested in China in not unsubstantial volume. It has contributed in no small measure to the building up of systems of

communications, textile manufacture, engineering works, and a number of like industries, in all of which the Chinese have proved themselves adept craftsmen. My own Company has made its contribution to this development by supplying dyestuffs, industrial chemicals, and a large range of auxiliary products. More than that, it has maintained a skilled staff of technicians to advise and service its Chinese clients, and to introduce up-to-date methods. We have sought to help Chinese agriculture not only by providing chemical fertilizers but by conducting scientific research on Chinese crops and soils, so as to find means of improving and increasing production. As the opportunity offers, I.C.I. will continue that policy, and I have no doubt other British industrial firms will do the same. But before China can develop and expand her own industrialisation, with British help, we shall want to see political stability. When I say 'help,' I mean financial aid for the erection of factories.

Civil War & Investment

Of course, China is not alone in having political problems on her hands. The world is seething with them, but it is sad indeed for her friends to have to look on, virtually powerless, at what looks like the beginnings of a new and fratricidal civil war. This does not necessarily mean that industry and commerce will cease, but as far as my Company is concerned (and I want to make it clear that I am not talking for British industry) we would not be disposed to invest money in factories in China until the situation gave far more promise of stability.

Investment presupposes security of tenure and sound government, and, speaking very frankly, those conditions do not at present exist. At the appropriate time I.C.I. is prepared to manufacture in China in partnership with the Chinese, and we have frequently exchanged ideas with Chinese interests, but the time is not yet ripe for developing that policy.

Chinese Inflation

Chinese financial decrees (those relating particularly to foreign exchange) have yet to satisfy the needs of sound foreign investment, although there is no doubt that her able financiers are doing their utmost to straighten out a most involved inflationary situation.

Let me say a few words on Chinese taxation and finance. There is an exchange control in force in China, and in August exchange was fixed at C.N.\$3,350 to the U.S. dollar, or \$13,250 to the pound. A new rate of C.N.\$6,000 to the dollar is already being talked about.

Whether this pegging of exchange is sound policy or not it is difficult to say; but China has some good financiers, and I presume they have considered all aspects. Theoretically, this policy should give cheap imports, and China is in desperate need of imports. But it is crippling for exports, and highly expensive in its effect on remittances to China, whether they are for capital expansion, private reconstruction, or the maintenance of personnel from abroad.

Taxation

Taxation is causing considerable anxiety to the trading community,

Chinese and foreign. Difficulties have also been created for the tax bureaux and private individuals by the almost complete absence of any effective machinery for collecting taxes, and by the promulgation of numerous tax laws which are so far effective only in theory.

I also feel disturbed about the basis of taxation of profit-seeking enterprises. The imposition of this taxation on a scale of percentages between profits and capital seems to me to be full of anomalies, and to penalise the more efficient companies. An active concern with a small capital will turn over a larger volume of business than an inefficient, over-capitalised business, but will be mulcted much more heavily in taxation. The complexity of capital structures makes it difficult to assess the true capital employed in any enterprise in China, and I should have thought that a simpler scheme would not only assist development and reconstruction but would bring in more revenue to the Government.

Responsible people are most concerned with the present inequalities in taxation, and with the wholesale tax evasion by the less scrupulous members of the community.

Industrial Position

So much for the financial situation. What, then, is the position of industry?

Like China, Britain has passed through an ordeal by fire. We have suffered enormous damage. Our industries have been diverted to war purposes over a period of years, and our man- and woman-power have been employed on war production to a greater extent than those of any of our allies. We have need, therefore, of all our energies in the resettlement of our own country. Britain's technicians have a very full programme of work in front of them, and they could occupy themselves exclusively at home for a long time to come. Yet let me at once say that my Company will strain every nerve to help China put her house in order. We have asked our people in China for their recommendations, and have discussed the needs of China with the Chinese Government and with Chinese industrialists. Already several I.C.I. technicians have been sent out, and we plan to send more.

The Chinese Government had wonderful blueprints for industrialisation, but the period of transition from war to so-called peace has been painful and disillusioning, and the impression prevails that those grand schemes have been temporarily shelved. On the whole, existing Chinese industry has been badly handicapped by a shortage of raw materials, but even more so by the incessant demands of labour for more favourable terms of employment.

Labour Costs

In real wages the Chinese industrial worker is now very much better off than he was before the war, which is very satisfactory, but this progress has been made at the expense of the Chinese economy in general: although the Chinese are good craftsmen, the workers are said to be much less efficient than the British or American. In terms of labour cost, a given piece of work is much more expensive in China than in the highly paid industrial centres of the rest of the world. Consequently China is no longer a cheap producer, and many industries are closing down.

There would seem to be excellent prospects for a revival of light industries as soon as some stability can be reached between labour costs, raw material costs and supply, and market prices.

Agriculture & Transport

Agriculture and communications—both vital factors in the prosperity of China—are in a state of sad deterioration.

Lack of fertilizers, both organic and chemical, have undoubtedly affected crop production. Besides that, important areas have suffered devastation as a consequence of the war. Active reconstruction is going on, but it is hampered by bad communications and political disturbances. Communications of all sorts have been disrupted, and the task of setting them in order has not made much progress. Until there is a free flow of goods between rural and urban districts no real prosperity seems possible.

Trade with China

So far as foreign trade is concerned, there appears to be an insatiable demand for imports of all sorts. There are two main reasons for this. Firstly, China has so long been deprived of access to world markets that a vacuum has been created which has been difficult to fill. Secondly, the people have such a deep distrust in currency that there is a constant urge to get rid of money and set up a store of value in actual goods or property. But goods are not easy to find. The whole world is seeking them.

Responsible importers try to impose some sort of rationing by assessing the genuine consumption needs of their customers and dividing their small shipments as fairly as possible. Such a policy becomes known to the Central Bank, which lends its active support by approving applications for foreign exchange. But the very nature of the market makes it inevitable that some part of these allocations reaches the open market where prices are quoted at five or six times that charged by the importer.

Generally speaking, although the demand appears insatiable, there is great difficulty in moving goods into the interior. In reality, therefore, the market in the ports is likely to be a short one, and if there were an abundant supply of imported goods, it would create a temporary dislocation of some magnitude until the goods forced their way out of the ports into the hinterland. Such an eventuality—the abundance of goods—seems unlikely, but if it could occur it might well prove an eventual blessing in curbing speculative elements, opening up the whole country, and thus contributing in some degree to political stabilisation.

The export situation is deplorable. There are several reasons for this. To start at the beginning. During the war stocks of export produce accumulated; these stocks were bought and sold time and again in a crazy roundabout, and by the time it became possible to ship them away, prices had got far out of line with world levels. Furthermore, the world had found many alternatives to Chinese exports, and it took some time for the Chinese to realise this. Meanwhile, with five years' storage, these goods had deteriorated in quality. The situation regarding new export stocks is not dissimilar. Cost of production or transport from the interior are so high in relation to the pegged exchange rate that overseas buyers show little interest.

Transportation Costs

Questions of transport and storage are bound up with communications generally, and refer particularly to inter-port facilities. Again, there are fantastic situations. For example, goods landed in a Shanghai wharf cost as much to move to a warehouse as the U.K./China freight. To move goods from Shanghai to, say, Tientsin costs on the average more than the value of the goods. These phenomena are largely due to the 'racket' which has developed among wharf and warehouse labourers, whereby each small section—ship to wharf, wharf to customs shed, customs shed to warehouse, and so on—is handled by different gangs, each charging high rates. Pilfering is another serious problem, but this seems to be an epidemic throughout the world.

Inter-coastal and Yangtze River transport is unreasonably expensive, particularly the latter. The British shipping companies have been operating an agreement with the Chinese which allowed limited commercial shipments between Chinese ports. This has helped to preserve some sort of moderation in freight charges. But only recently, when the Chinese Government reopened certain river ports to foreign shipping under very restricted conditions, a storm of protest came from certain Chinese shipping concerns, who have not hesitated to exploit the monopoly they have hitherto enjoyed.

Relief Methods

That leads me to a consideration of the work of U.N.R.R.A. and C.N.R.R.A. Of late, both these relief agencies have been heavily criticised. The whole development of relief activities has been watched with increasing anxiety by commercial interests, who have frequently seen supplies being diverted from their proper objectives into the legitimate fields of trade and commerce. There has been criticism of U.N.R.R.A. personnel, some justified, some not. On the whole, possibly the main charge against U.N.R.R.A. lies in its choice of personnel, many of whom are inadequately equipped, by experience or by competence, to carry out their work, and secondly in its failure to utilise the services and technical help of foreign firms in China.

In regard to C.N.R.R.A., the most obvious criticism is the way in which it has sold relief goods in large volume on the open market. The excuse that these sales are warranted by the need of funds for administrative expenses is difficult for the ordinary man to credit.

A further criticism of both U.N.R.R.A. and C.N.R.R.A. is that a huge stream of supplies has been pouring into Shanghai, filling up wharves and warehouses, with no hope of getting out to its proper destination in reasonable time. This congestion in the port has led to serious and expensive delays with shipping and with every form of trade. It is a tragic state of affairs to those who are fond of China and the Chinese.

Manchuria

I feel I must not close without saying something about the provinces of Manchuria and Formosa. After fifteen years of segregation, Manchuria has been rightfully restored to China. Much of the industrial equipment left there by the Japanese has been lost to China, but the territory itself is rich in natural resources. It is to be hoped that Manchuria will be fully reopened to

foreign trade before very long, so that the Chinese programme of development can be assisted by the natural flow of goods to and from other countries. The territory itself will again provide homes, food, and work for large numbers of immigrants from the south.

We must also hope that the political problems facing the Government in Manchuria, both internally and externally, will not tend to delay or hinder the rehabilitation of the province.

Formosa

Turning to Formosa, I think it is to be regretted that the shortage of trained administrators has prevented the Chinese from making the earliest and fullest use of Formosa's great productive capacity. A liberal and progressive policy in Formosa, encouraging the inhabitants and enabling them to share fully in the future prosperity of the island, will repay itself handsomely in cementing the loyalty of the island's people to China after their half-century of exploitation by the Japanese.

It may be said that in my remarks this afternoon I have been too blunt, but nothing is lost by frank speaking. I have indicated some of the problems that China must solve before she can progress towards raising the standard of living of her people and occupying her place in the industrial sun. While there is no occasion for undue optimism, there is equally no occasion for despair, and I feel sure that Great Britain, with her long-standing friendship for China, will do her best to lift that country out of the chaos which prevails today, and I can promise that my Company will play its part in this policy, as a restored economy in China will help the entire world.

The Shanghai Press

The vernacular press in Shanghai has not yet dropped discussing conscription in China which topic of conversation appears to be countrywide. Even the "Ta Kung Pao" has come out with denunciations and exposes many cases of official corruption in connection with conscription. The paper reports that f.i. in Loyang, Honan, every "escapee" from conscription pays between CN\$800,000 to \$1,200,000. Village elders, Pao Chia chiefs, District officials have become rich by exploiting the young men and their families who are eligible for service in the army. The liberal papers are particularly vociferous about malpractices and bribes in coastal cities. Incidents in Hangchow and Foochow were described at length. Many conscripted young men deserted their units which again led to fines and penalties imposed upon their families.

The obstruction and outright confiscation of non-KMT periodicals has been stepped up during October. Many of the popular democratic and leftist weeklies and monthlies (like Min Chu, Wen Tsui, Chun Chung, etc.) have been together with books "likely to endanger dangerous thoughts" removed from news stands and book shops. The liberal press in Shanghai reports about many such cases also in a number of coastal cities (esp. Foochow). Some news vendors who did not heed Police warnings were detained for several days so as to discourage them from further peddling of "obnoxious" magazines.

The campaign against American brutalities, crimes, "imperialism" etc. has continued without any sign for subsiding. The rightist KMT press is exploiting every incident which can be turned against U.S. and thus vies with the leftist press for the honour of mud-slinging and abuses. The newspaper reading public must get into an ugly mood if fed daily with anti-American stories and hatred-inspiring accusations. No responsible paper in Shanghai dares to come out in defense of the Americans in China and American economic policy. Only in private talks Chinese citizens deplore the excesses of the majority of the vernacular press and show apprehension about the effects of this mind-poisoning campaign.

Anglo-Chinese Commercial Relations

Mr John Keswick's Address

At a dinner given on October 11 by the British Chamber of Commerce, Shanghai, in honour of the British Trade Mission to China and Chinese officials and business men, Mr John Keswick, the Chairman of the Chamber of Commerce, addressed the gathering. Mr Keswick's speeches are always important statements relating to Anglo-Chinese relations in particular and Sino-Foreign relations in general. The following address has aroused much interest and comment in China and abroad.

Chairman's Speech

On behalf of the British Chamber of Commerce I have great pleasure in welcoming our guests. First the members of the United Kingdom Trade Mission to China, and secondly our Chinese friends. We consider it a great honour to offer our humble hospitality to such distinguished visitors from our own country and at the same time to introduce to them some of the leading personalities of the official and commercial life of China.

The Trade Mission has been arranged and sent out here—in two great aircraft of the Royal Air Force—by the British Government and an official welcome has been extended by the Government of China: everything is set under the most favourable auspices.

The purpose of the Mission is to consider the best methods by which trade between China and the United Kingdom may be promoted, both during the present period of transition from war to peace and in the future when the economic equilibrium of both countries is re-established on a more normal basis. The Mission will seek to stimulate China's interest in the United Kingdom as a source of supply for both capital equipment and consumer goods, and also to demonstrate that United Kingdom manufacturers are not only equipped to satisfy China's many requirements but are capable of doing so within a reasonable period of time. The Mission will equally study the possibility of increasing China's exports to the United Kingdom so that trade between the two countries can be conducted on a mutually beneficial basis. In general, the objects of the Mission include: Investigation of conditions of trade;—the establishment of contacts in all spheres;—the making of personal friendly relations with officials and merchants in China; This will lead to the improvement of existing arrangements and the opening up of new and permanent channels, through which a greatly increasing and profitable two-way trade may pass between China and the United Kingdom. The presence of the Mission is direct evidence of the desire of the British Government to help trade expansion with China—a desire, I may add, which has already been seen in the increased help we have received from the Board of Trade, since the war ended.

Trade Mission's Business

As regards Exports from England, I believe there has recently been an exhibition in London called "Britain Can Make It"; let me assure you all "that China can take it".

It is scarcely necessary to add that the Mission will not indulge in direct trade while it is here, nor will the mem-

bers seek specific orders while they are with us.

Sir Leslie Boyce and his companions come too to tell us all that England can do and to learn how China is carrying out her rehabilitation programme. They will forge a new link in Sino-British trade relations thus broadening our mutual understanding and goodwill.

For this task the Mission has a great team. The Leader, Sir Leslie Boyce is a man of international repute and wide experience. He was a Member of Parliament for sixteen years and is one of the leading industrialists of the United Kingdom. With him he has a wide range of experts. The Export Director of B.E.M.A. (British Electrical Manufacturers Association), Experts on Textiles, nonferrous metals, steel and Trade Union affairs, to mention just a few of their many sided qualifications. It is a pleasure too to notice one or two familiar faces. To them, as to the others, we offer the warmest of welcomes and the wish that their sojourn in China may be profitable to them as, we are sure, it will be to us.

Chinese Friends

May I say a word to the Mission about our Chinese friends. We have with us tonight some of the sincerest friends that men could wish to have. Many of them are leaders in China and represent in Shanghai the most senior Government Departments as well as the most important Banks, merchant houses and industries. We have Dr. Kung, who was Prime Minister during most of those long hard fought years of war. We have Dr. K. C. Wu, our great Mayor and we have many other names which are household words in these parts.

These are friends with whom we are in constant touch and with whom we work out the problems which confront us—and remember, the problems which face the British merchant in China are just the same for our Chinese friends. The evil genius of frustration does not discriminate between one race and another.

No more Compradores

May I stress the happy relationship which exists between ourselves and the people amongst whom we have the honour of living and doing business—moreover if any of our guests should wonder if the compradore system still runs, let him forget it once and for all—the title of Compradore, often an honourable one in the past—is outdated and outmoded. There are no more Compradores. Today, the Chinese and British business community live side by side on terms of equality and direct dealing. With the Compradore has gone "the old China hand" though, as our friends around this table will, I am sure agree, there are a welcome number of "Lao Chungkuo" still left to hold the hand of the newcomer.

British Chamber of Commerce

With our permission I will now say a few words about the British Chamber of Commerce. In pre-war days the Chamber of Commerce was an important body but during times of relatively settled conditions the problems which faced its members were not unusually

great or wide. Today the situation is very different and the Chamber's responsibilities, both to its members and to the British Community in general, have greatly increased. The Chamber now acts as a clearing house in all matters which affect British trade. It maintains the closest possible contact with all officials of the Chinese Government with a view to providing a link between the official and the merchant. We try to play our full part in the commercial life of Shanghai. I would like to add here that the Chamber is a non-political body. It is merely an association of members without any financial bond or engagement. It is maintained mainly for the benefit of the British but we try to be of service to all, especially where we can help our Chinese friends. We are aware of China's requirements in the post war period and we do all we can to participate in the development of trade, to play our part in the industrialisation and reconstruction of this country. We are aware of Great Britain's vital necessity to regain her prominent position in the export trade of the world. British firms out here are therefore confident of their ability to supply the link between China's requirements and Great Britain's need for export.

Trade with Britain

I regret to say, however, that the import figures into China during the first half of this year, do not present a very happy picture. Imports from Great Britain during January and July amounted to only 5.37% of China's total imports. In July the figure was 5.45%, but in August it dropped back to 3.86%. Meanwhile our American friends had enjoyed 53/56 and 67% of the totals. This does not deter us and we shall work hard to improve. In this connection it should be remembered that imports and exports are not alone a fair measure of British trade because it is in the field of banking, insurance, industry and communications that we have directed much energy and skill. We shall, of course, look to the Mission to help us to develop all of these.

In the post war world there is a clearly discernible new trend in conducting trade between Government and Government, thus cutting out the merchant. Whilst this method of trading is clearly not to the benefit of the individual trader we realise in many respects it may be logical way in which to cater to certain needs, but those of us who live and work out here feel confident that we perform functions greater than those of the mere broker, we are competent salesmen and often we are financiers. Moreover, we are always here whatever happens. I would like to add, with modesty, that some times we are Ambassadors of Britain's good name. Today we are re-shaping our businesses, developing new methods of finance and new methods of trade in China. It would perhaps be truer to say that we are re-constituting a system which has been perfected by British Firms over many decades.

An Old Shanghai Story

May I tell an old Shanghai story which will, I think, illustrate my point.

One day in the country somewhere in China, a stranger was walking along a road and he came upon a well dressed Chinese who had the appearance of a Banker, being chased by a large water buffalo and he was shouting for help. The stranger ran to assist him and as he

ran he noticed a small cave in a hill very near the unfortunate Banker, so he shouted "Why do you not run into that cave?". "Ah", said the Banker, "You do not know the local situation, there is a tiger in that cave". I am not sure whether the Banker came from Shansi or Chekiang, but the fact remains that local knowledge is a valuable thing.

Three Points of Interest

I will not go into the details of the import or export business, nor of the present financial position which we find in China, for these will be matters of individual study while the Mission is in China, but I would like to make three points which I believe to be of fundamental interest to the Trade Mission.

The first is "Inflation", which has brought with it high costs of living and labour unrest, and has brought with it too, financial restrictions. These troubles are not peculiar to China and we face them as best we can. We do not kick against restrictions because we realise that they are inevitable, we only hope that a steady improvement will soon take place and in this connection I would like to suggest that it will be very much in China's interests, as well as in ours, if the Government Authorities can evolve a method of dealing freely in Sterling, both for remittances and for forward buying and selling; without this, trade cannot be really prosperous. It is worth noting that in certain respects American currency has so far enjoyed some advantages.

The second problem is *transportation*. Much has been said in the newspapers about shipping and I will say no more. On the other hand, I hope that the Trade Mission will consider the problem of internal transportation, that is to say, the railway system of China, in which the British have in the past always played a leading role.

The last fundamental question is the *low purchasing power* of the four hundred million Chinese people. It is my own personal belief that China's wealth lies in the productive capacity of the Chinese farmer and the manual worker. I believe, too, that much can be done to increase his productive capacity, not by building great industrial plants, but by the careful planning of scientific farming and small industries, coupled with this, of course, is the previous problem, namely, internal transportation. I would like to suggest that the Mission studies this question in relation to their general report when they return to England.

One of the most charming characteristics of the Chinese people is their unflinching optimism, coupled with which is their great good temper and sense of humour. These characteristics are infectious and you will find amongst the British merchants a considerable degree of optimism, albeit tempered by realism. We all appreciate that while we live in China our welfare is linked with that of China, our prosperity with the prosperity of China and our peace with the peace of China. We are confident that welfare, prosperity and peace will bless this country and with it us.

Conditions in the Philippine Republic

The Problems of the new independent State

From a special contributor in the Philippines

With the appropriate ceremonies, which were both dignified and moving, the Republic of the Philippines was born on the fourth day of July and the Chief Executive, President Manuel A. Roxas, dedicated the new nation to uphold and defend the principles of liberty and democracy in this part of the world. However, choosing carefully the words used in his inaugural address, he said: "Heavy is the weight of responsibility we bear as we start out upon the dangerous paths of independence. The ever-present guide is gone. We must find our own way, with the instincts we have inherited, with the wisdom we have acquired."

After paying tribute to "the friendship and devotion of the United States", which he described as "the greatest ornament of our independence", the President paused solemnly and said: "And now, we must turn our eyes from the past and inspect as well as we can the dim and uncertain future. If we surmount the difficulties that beset us, if we conquer the obstacles which bar our way, our people will grow great in the eyes of man. But if we strut with false pride upon the world stage, if we berate with bombast our friends and benefactors, if we lend, for reasons of political expediency, comfort and encouragement to the enemies of peace and freedom, if we invite poverty, chaos and disorder to inhabit our land, we will break faith with our noble past and imperil our national future."

These are brave words and wise ones, and those who have known President Roxas for many years are confident that they were sincerely spoken and that the Filipino people can count themselves very fortunate in having at the helm of state a leader of his character and prescience. We share his conviction that the future will provoke for the country a host of difficult problems, the solving of which will tax to the utmost the ingenuity of its leaders and tenacity of its 18,000,000 inhabitants. "We are a troubled people", the President said. "Our economic goods are destroyed and our homes and buildings are a shambles. We must rebuild the levelled land. Against a background of destruction, we acquire our sovereignty, we receive our national heritage. We must perform near miracles to bring prosperity to this our land."

Foreign Capital

In uttering these words of caution, the President no doubt had in mind the somewhat idealistic concept of independence which a great many Filipinos have inherited from their more primitive forebears—a state of optimum prosperity which can be maintained with a minimum of individual effort—a feeling, which amounts to conviction among the uneducated and less privileged people, that the average foreigner and his capital are not really essential to the country's prosperity and that his services to its trade and commerce could be performed equally well by Filipino bankers and merchants. In this regard, the President stated on May 28th (when he was inducted into the office of President of the Commonwealth of the Philippines, following the election held the preceding month) that foreign capital—investment capital

—would be welcomed and protected, an obviously sound policy for a country like the Philippines and particularly so at the present time, when it is now clear that the amount allocated by the Congress of the United States for war damage compensation will be entirely inadequate for the speedy and complete rehabilitation of the Islands' most important industries—sugar, mining and the manufacture of coconut oil—which contributed substantially more than one-half of the total government revenues in pre-war days, sugar alone 43%.

Responsibility to America

The President finished his inaugural address with a note of sober confidence in the ability of the Filipino people to work out their own economic salvation, in spite of the difficulties ahead, and in invocation to his countrymen to "take comfort in the national sturdiness and courage" and to "bear well the burdens of adversity". He said: "Stout of heart and firm of purpose, prudent and wise in the deep wisdom of nature and of God, our people have great reservoirs. This land, this child of freedom, has great responsibilities to America. We are staging an area of democracy in this part of the world. But, whatever our role in history, of one thing we may be sure—the Filipino, strong in his faith and steadfast in his loyalty, will support his nation, come what may. This daughter land of America, sprung from the hardy stock of Asia, will not be awed by difficulties. It will live and endure the shocks of our time. This is our faith and this is our resolve." Courageous and inspiring words indeed.

Reconstruction

There is no doubt in my mind that the vast majority of the Filipino people have faith in their President, confidence in his judgment and a desire to follow his sound advice as far as may seem possible to them to do so, but their age-old concept of independence to which I have already referred may make it difficult for them to endure the hardships of the coming few years, during which general employment throughout the country must await the rehabilitation of its principal industries. The rebuilding of the bombed sugar factories and coconut oil refineries—most of which have been either seriously damaged or totally destroyed—and the reopening of the mines will cost hundreds of millions of pesos. It was expected that at least 80% of this capital would be provided by the War Damage Commission, but the amount set aside for the purpose is only (U.S.) \$400,000,000, or P.800,000,000, of which it is now thought that about one-half will go to the small Filipino property owners, who have a priority status, inasmuch as the Act provides that, immediately upon the approval of a claim for war damage compensation, the claimant shall receive up to P.1,000 forthwith, the payment of the balance of the claim being dependent on the relationship of the unexpended part of the P.800,000,000 to the unpaid portions of all approved claims. On the hypothesis that P.400,000,000 will be distributed during the coming nine months—mostly to the small claimants—there will be a further P.400,000,000 still available for the final adjustment of all

approved claims, and this it is roughly estimated will only provide 35% to 40% reimbursement for large property owners' losses. Needless to say, the estimate of the aggregate of all claims is guesswork at this time but it is generally thought that the total amount allocated by Congress will prove to be far below that of the losses suffered and that the method of settling only small claims promptly will work a hardship on the large companies and will delay for at least two years the rehabilitation of their factories and mines, thereby retarding the country's production of export commodities, the reestablishment of its income from abroad and the provision of remunerative work for the bulk of its people.

Privations

Immediately following the liberation of the Islands from the Japanese yoke, the spending power of the visiting American soldiers and sailors resulted in an artificial boom in Manila and the other garrison towns, but the distribution of this money—in the aggregate many millions of pesos—was not general throughout the archipelago; indeed many islands got practically none of it. This was the case in the Island of Negros, which produced 59% of the entire sugar crop before the war and where conditions today are extremely bad for the erstwhile plantation labourers. It will be two or three years before the Negros sugar crop will approximate its pre-war size and, meantime, most of the people there will have to continue the tightening of their belts. This remark applies to most of the other sugar and all the mining districts, and it remains to be seen how the population will take the prolonged privation. It can be said, of course, that the distribution of the estimated P.400,000,000 in the settlement of small war damage compensation claims during the coming nine months will alleviate the distress but even this large amount would only average P.22.22 per head for the 18,000,000 Filipinos; furthermore, the money is really intended to provide for the reconstruction of their houses, the replacement of work animals and the other property they lost during the war—not for living expenses. The only sound policy is to get them back to the work they did in pre-war days—productive work—but in the sugar and mining districts this cannot be done until the processing plants are reconditioned and it looks now as though this may take three to four years in many, if not most, cases.

Due to the agrarian unrest in some districts and to the continued lack of transportation facilities throughout the islands—the replacement of which also depends to a large extent on the distribution of war damage compensation—the production of the staple foods, rice and maize, has dropped so considerably that prices in the large cities and country districts not dedicated to those crops are three to four times higher than they were in 1941. Other foodstuffs have been similarly affected and today the cost of living for the average Filipino is at least three times what it was in pre-war days. If he can get it in no other way, a hungry man will steal food for a starving wife and family, and this is another ominous factor in the present general situation throughout the islands.

Lawlessness is rife in many parts and although President Roxas has stated publicly that his government will suppress such activities, the public funds available at this time are entirely inadequate for this purpose.

Government Revenue

The economy of the country has been so disrupted by the war that the government's revenues are but an infinitesimal part of those received before Pearl Harbour Day, and it remains to be seen how the essential services can be maintained unless the new republic is able to obtain a substantial loan from the United States or uses for general purposes the funds which it will receive for the replacement and repair of government property destroyed and damaged during the war years. Until the export trade of the Islands is revived and money flows in once again from the sale abroad of Philippine sugar, hemp, coconut products and gold, to say nothing of the products of lesser importance that swelled the general revenues in times of peace, the country will have to live on credit. President Roxas will probably endeavour to negotiate a direct loan from the United States to the Republic of the Philippines but this must await the implementation of the two Acts (of assistance for the Philippines) recently signed by President Truman which require the passage of legislation by the Congress here.

Deteriorated Conditions

The pre-war plan for preparing the country for complete independence on July 4th, 1946, provided that the preceding decade would be one of gradually declining tariff preferentials with the United States, so that from a free-trade basis duties would be imposed until 25% of the full rates would be payable on each country's importations into the other's territory. It was also arranged that, during the last two years of the decade, representatives of the two countries would formulate a trade treaty for the approval and signature of the United States and the Philippine Republic, which it was thought would continue the preferential trade relationship for a number of years. On that basis, the Filipino people would be able to work out their own economic salvation, because they would start off on their independent political career with a balanced budget, very little external debt and their thriving industries in full operation. However, in view of the devastation caused by the war, it seemed on the eve of the liberation of the country from the Japanese yoke (1944) that it would be wise to cancel the pre-war independence program and continue the Commonwealth period of preparation for national statehood until such time as the conditions prevailing in the country approximated those visualised for 1946 when the Independence Act was originally passed by the U.S. Congress. The country is far less prepared and ready for independence today than it was when that Act was conceived in 1935 because, instead of going forward during the second half of the preparatory decade, it moved in a diametrically opposite direction.

On the subject of future financial assistance to the Islands, President Truman said: "The United States will continue to assist the Philippines in every way possible . . . Together, in the future, our two countries must prove the soundness and wisdom of this great experiment of Pacific democracy"; the American Ambassador (Paul McNutt, the late U.S. High Commissioner to the Philippines Commonwealth) spoke of his country giving comfort to the new republic, of a community of common principles to uphold and of the inalienable right of all peoples to be the masters of their own fate. Senator Tydings and

Congressman Bell, the co-authors of the two Acts of Congress determining the United States' present financial assistance (war damage compensation) to and future relationship with the Philippines said nothing about the possibility of further financial assistance in years to come.

Nevertheless it is believed that the United States cannot very well allow the Philippines experiment to fail for want of further assistance from Washington. National prestige will surely demand prompt action—speedy assistance—if things go wrong.

One cannot live for any length of time in these islands without developing an affection for them and for their people. To see their country as it is today—torn and devastated by the ravages of war—and to realize the complete disintegration of the amenities they enjoyed before the Japanese occupation is to conceive a sincere sympathy for them and a strong desire to help in any way possible. I am afraid that most of them do not realize the long time it will take to restore the happy conditions that prevailed here in pre-war days and that therefore their years to come will be tainted with disillusion and a feeling that their dearest hopes have been frustrated.

South China's Trade Difficulties

Chinese merchants who have come here from the interior in order to make arrangements for imports both from stock on hand in Hongkong and on order from abroad are disappointed about the high prices which prevent them from doing business to any large extent. It is pointed out by representatives of import houses in Kunming that the purchasing power of the people in Yunnan is so low that foreign goods can be sold only with great difficulty. The appreciation of foreign currencies has further tended to decrease Chinese purchasing power for foreign goods. If one considers the very large degree of poverty and hand-to-mouth existence which the vast majority of people in the interior provinces lead one will view the present and future situation of foreign imports not with much optimism.

Already before the end of the Pacific War many enterprising merchants had placed large orders with foreign companies for delivery after the end of hostilities. While fighting was in progress all over China, Burma and the Pacific area shrewd merchants were anxious to be among the first to get foreign commodities into China. Their calculations proved correct and all imports, whether from U.S., Sweden, Switzerland etc., were after arrival in China sold at enormous profits. Similar profits were made when goods arrived here during the first months of 1946; it was easy to sell them at three and four times the C.I.F. China price, in many cases profits amounting to five to six times the value of imports were made. The markets in China appeared as if no supply could ever satisfy them. However, the demand especially in South China quickly dried up.

The Hoarders Lose

The largest buyers of imported goods were commodity hoarders and big merchants who were labouring under the illusions of war time conditions which impressed themselves so much on their minds that they could not return to normal commercial thinking. When one got inured to the psychology of speculation and hoarding which were at the basis of building up fortunes during the war it seemed to be almost impossible to adjust one's calculations and business policy to entirely different conditions. The consequence of the ill-advised post-war hoarding policy was that

great losses were sustained. All the foreign goods bought during the first months after the end of war which were not consumed but were purposely hoarded depreciated very much in terms of foreign currencies although their value in CN\$, on account of the constant decrease in the purchasing power of the Chinese dollar, has increased.

The merchant-hoarders who were stocking up in anticipation of higher prices, always hoping for shortages and transportation bottlenecks, were disappointed when slowly but surely commodity prices slumped. Not prepared to sell at a loss or even without making a profit but always hoping for some break in the flow of foreign imports, even banking on political disturbances, these hoarders were caught and could not disentangle themselves. In large provincial cities like Kweiyang and Kunming the hoarders' godowns are chockful with foreign cargo which can only be sold at considerable loss prices to their owners. A few of them have liquidated their stocks, and took the loss in the hope of making profits elsewhere. The majority of the hoarders stick to their hoards waiting for better times to come. They also attempt to manipulate the import position in their respective cities by discouraging other merchants from importing sometimes with threats that they would release their hoarded goods at a price lower than the would-be importer might be able to sell.

Import Stagnation

Thus a certain stagnation of trade must be anticipated until the large undigested imports of previous months will be absorbed by the public. The low degree of purchasing power of the people in town and country is, of course, a consequence of their lack of productivity and the dwindling of exports. As long as exports from Kwangtung, Kwangsi, Yunnan and Szechuan cannot be increased, and increased very considerably, just as long will last the period of stagnation. Imports on a speculative basis can no longer be made since international communications improve continually and tendencies on world markets do not justify and belief in higher prices. From now on imports into South China can only be made if intended for immediate consumption.

Funds Abroad

The reservoir of foreign currencies held overseas by Chinese merchants and investors is slowly exhausting itself. According to Chinese importers, about 80% of the funds held in America in US\$ have been consumed since the end of the war until beginning of November. If there is no accumulation of funds in U.S. within the next few months, the outlook for Chinese importers is dim indeed.

Funds in U.S. are fed by American Chinese or Chinese citizens living in U.S. Their remittances to China have so far been small when compared with prewar amounts. One estimates that the monthly average of American Chinese remittances to China is around US\$7 millions. This amount is to roughly 80% remitted by relatives of the Amoy (Fukien) and Swatow, Chungshan, Toishan and other Kwangtung districts. Hongkong is traditionally the clearing place for overseas remittances both from U.S. and other parts of the world.

These US\$7 millions are a great help in balancing the trade of Kwangtung and parts of South China. Without these remittances poverty and misery would be very much larger than it is at present. However, the population in South China is in such urgent need for food and clothing that even much higher US\$ remittances would not relieve the situation. The problem can only be solved if exports can be resumed and maintained so that imports can be paid for.

Early Construction of Modern Hongkong Airport

Pan-American Airways in Hongkong

Reports from London strongly indicate that approval for the construction of Hongkong's modern airport can be expected within a few weeks. Survey work can then start and the new airfield at Deep Bay will most probably enter the stage of construction by about January. As soon as the first runway will be completed the new airfield will be used by the heavier types of aircraft. Two runways of 3,000 yards each will be constructed. Hangars, office and other buildings will be completed by about end of 1948 or early in 1949. The Kaitak aerodrome which is already now very crowded will be relieved as soon as the first runway of the new airfield will be in operational condition, probably early in 1948.

During October Kaitak handled 3,600 passengers and 141 civil aircraft arrived and left. A number of RAF planes accommodating civil passengers are not included in the figure. Since the last review of aviation in Hongkong (see issue of Oct. 16, page 2 & page 12) the following changes have occurred.

Commercial Airlines, owned by Philippino-Chinese interests (the Sycip group), have registered here as a Hongkong company, have dropped the "Inc." and substituted it with an "Ltd." Non-scheduled services several times a week are carried on.

Air France, the principal French airline, is running a weekly service to Europe, starting from Saigon. Hongkong planes flying to Saigon connect the Colony through another important air link with Europe.

Cathay Pacific Airways, owned by Roy Farrell Company, will soon start (using Dakota planes) a service to Manila. This Hongkong registered British aviation company will furthermore commence a regular service between Hongkong and Macao, taking off here in the morning and returning in the evening from the Portuguese Colony. The company's Dakotas will negotiate the trip in about 20 minutes, carry up to 28 passengers; the fare will be \$40.

With improvement of conditions in the Netherlands East Indies a Royal Netherlands airline is expected to call here regularly.

Pan-American Airways

The first around-the-world flight by Pan-American World Airways will start around middle of December. The U.S. planes taking off at San Francisco will, via Midway, Wake, Guam, Manila, call on Hongkong from where they will continue to Rangoon and Calcutta. At Calcutta another P.A.A. plane will wait for continuation of the round-the-world cruise across the Mediterranean and Atlantic to U.S.

P.A.A. have already made all arrangements for opening of their local office (at Gloucester Building) and use of this airfield problematical, how-
party was satisfied with the survey conducted and the U.S. Government officials (of the Civil Aeronautics Board) declared Kaitak suitable for the use of P.A.A. craft making only reservations for cer-

tain unfavourable weather conditions which ought to preclude landing and take-off. The Kaitak surrounding hills were in the past believed to make the use of this airfield problematical, however, according to the survey of U.S. Civil Aeronautics Board experts the present Hongkong airfield meets international civil aviation standards under condition that meteorological caution is observed.

Pan American will operate another line via Hawaii and Japan to Shanghai. From Hongkong P.A.A. planes will also, via Canton, fly up to Shanghai.

The news that Pan American is going to use Hongkong as one of its main bases for its world cruises comes, while not unexpected, as a very encouraging stimulant for further increase of the Colony's air traffic.

One or two other American air lines are planning to use Hongkong for the expansion of their services in the Far East.

The future of Hongkong as a great international airport appears to be secured.

Chinese Aviation Lines

The Dah Hwa (Great China) Aviation Co. which previously tentatively ran a short-lived service inside China, touching also the Colony, has finally been refused permission to operate and the Chinese Government requested the company to wind up. Many Chinese papers have regretted this forced liquidation which leaves only CNAC and CATC in the field of Chinese aviation.

A third air line, China Air Transport (CAT), will sometime in November start flying, with Canton as headquarters and a fleet of 12 transport planes (C46 and 47). CAT is an American company organised by Maj-Gen Claire Chennault and Mr Whiting Willauer (ex-FEA, Far Eastern Director) under supervision of CNRRA. The two Americans provide US\$1 million working capital, CNRRA (through UNRRA funds) supplied US\$2 million for purchase of transport planes, and UNRRA provides US\$1 million for payment of gasoline, oil, other foreign supplies necessary to start operation. After CNRRA discontinues functioning CAT will have to suspend its services as well. Cargo and passengers can be carried at rates similar to CNAC and CATC prices if space has not been taken up fully by CNRRA or Chinese Government organisations. The contract signed between CNRRA and CAT has caused much unfavourable comment in many sectors of the Chinese press who accused the originators of the agreement of infringing on China's rights of civil aviation.

The Shanghai Air Port

Facilities at Shanghai's civil airports are very inadequate. A new runway at Lungghwa, estimated to cost US\$1 million, is now proposed to be built soon, and plans for building of runways at Kiangwan and opening of Shanghai's third airfield, Hungjao, are discussed in the press. It was suggested that the new Lungghwa runway ought

to be financed by CNAC and CATC to 50%, the remainder to be paid by the National Govt and the Shanghai City Govt.

Another proposal would prefer a "Shanghai Airport Authority" taking charge of financing and controlling civil aeronautics of the city. This Airport Authority should be financed by government and the two Chinese air lines subscribing a large part of the capital with the rest being subscribed by the public or the banks in Shanghai.

China's Principal Exports

Silk—Tea—Tung Oil—Bristles

Decreasing world market prices for silk, tea, tung oil and bristles have jeopardised export chances and have further contributed to a slump in Chinese exports.

Parallel with price decreases in New York and London there have happened and are still happening increases in Chinese production, transportation costs and taxation.

Silk prices since August have dropped in the U.S. steadily. Grade D raw silk dropped from US\$9.00 per pound to US\$8.635. It recovered to US\$7.50 per pound. Italian silk sells at \$7.00 per pound. Even at the price of US\$7.00 per pound, one picul of silk would only sell for CN\$3,000,000. This, minus about CN\$400,000 for freight, insurance, rail transportation charges, etc., would leave only CN\$2,600,000 for each picul of raw silk while at present, D grade silk sells at CN\$3,000,000 in Shanghai. No merchant is willing to export raw silk to the U.S. Recently the Government decided to apply relief measures for raw silk, by ordering the Central Trust of China to purchase raw silk at the approved price of CN\$3,800,000 per picul of Grade D silk. But the silk flatures allege that since the exchange rate adjustment, prices have risen, and the cost of each picul of silk has already exceeded 4 million dollars. It remains to be seen whether the Government's purchase policy is sufficient to retrieve the situation or not.

The U.S. and U.S.S.R. are the two major markets for Chinese tea. The question of price and cost remains the chief obstacle to export sales of Chinese tea. Before the adjustment of the exchange rate, the tea price abroad was only about one-third of the tea cost in China. After the adjustment, calculating at the U.S. ceiling price of US\$5.7 per pound of high grade black tea and US\$4.8 for first grade green tea, the cost of CN\$2,400 per catty of this year's new tea in China is still double the U.S. selling prices. If the Government does not adopt a policy of purchasing tea or granting subsidies, it will be impossible to export tea. Concerning the Russian market, the Central Trust of China held talks with Russian Commercial Representatives on the bartering of goods. The Russian side suggested that prices be fixed on the basis of New York quotations. The Central Trust requested instead that prices be based on the cost price of this year's new tea at the place of production. The question of tea export remains unsettled. On top of the cost-price problem, the Government has recently imposed a heavy burden to the already stumbling tea trade.

Before the exchange rate adjustment, tung oil sold at CN\$70,000 per picul. It has recently risen to CN\$120,000. The present U.S. price of US\$3.35 per pound, or CN\$130,000 per picul when converted into Chinese dollars at the official exchange rate, is insufficient to stimulate the export of this commodity. The U.S. has long developed substitutes for tung oil. Tung oil is also grown in Argentina though it is of inferior grade. If tung oil prices in China keep on increasing, it is possible that China may lose the U.S. market.

As to bristles, the cost of No. 17 black bristles in Shanghai recently rose from CN\$350,000 to CN\$550,000 per picul. Four months ago the bristle price reached US\$3.50 per pound due to shortage of goods. It has now dropped to US\$2.00 per pound, or CN\$700,000 per picul. The above price must also cover freight, duties and insurance charges.

FINANCIAL NOTES

Chinese Shares

on the Shanghai Securities Exchange are selling on the average between 7 to 12 millions per day. During recent weeks the average per week was 52 million shares, and the turnover approx. CN\$30,000 millions per week. At the official Central Bank rate this amount equals about US\$9 millions.

Foreign Exchange for Raw Cotton

which was suspended after middle of August has been resumed by Central Bank of China to all those cotton mills in Shanghai which can prove that their raw cotton stocks were less than their requirements for a 3 months operation period. A large number of mills in the Shanghai area have applied for official exchange and have already obtained several millions US\$ for purchase of cotton from Brazil, India and U.S.

Remittances from Oversea Chinese

Shanghai bankers complain that remittances from abroad have very much declined since about August. The main reason for the decline is obviously the low official rate which the Central Bank allows (CN\$3,340 for US\$1). Oversea Chinese remitting money to China avail themselves of the black market rate which is about 30% higher than the official rate. US\$ from America are remitted in increasing amounts via Hongkong. The recipient of US\$ remittances from abroad usually does not draw his credit from the banks but sells his draft to merchants at the black market rate. The buyer of the US\$ draft sends it back to America where it is put into his account.

Remittances from overseas Chinese to Canton amounted in August to about CN\$12 billions. In September there was a noticeable decline to a little over CN\$9 billions (US\$2.7 millions).

It is estimated by bankers in Canton that remittances from America sent to the interior via Hongkong amounted to about US\$4 for the month of September.

Capital Flight

The Chinese commercial press dwells by preference on the subject of flight of capital by rich merchants and officials from Shanghai to foreign places, and Hongkong appears to have assumed a prominent position in this connection. Various estimates by Shanghai financial circles speak of CN\$10 to 30 billions of flight capital having arrived in Hongkong within the past four months (from July to October).

Some hundred to hundred fifty prominent business men from Shanghai have transferred their abode to the Colony, some have opened companies here, others only appear to be biding their time, waiting until the "typhoon in China" has passed. Some Chinese self-styled economists are arguing that this capital flight from Shanghai ought to be stopped and want to construe a responsibility of the Hongkong Government for not preventing this capital flight.

While it is clear that this "hot money" here is not welcome and tends to encourage only speculation, the local authorities are not in a position to prevent Chinese financiers and merchants coming to the Colony.

However, it is of real concern to the financial stability of the Colony that merchants and speculators smuggling HK\$ out of Hongkong are apprehended. The lack of confidence by the Chinese people at large in the stability of CN\$ has, among other effects, also led to a hoarding of HK\$ as a hedge against inflation in large parts of South China and Shanghai as well. Of late this hoarding of HK\$ in Canton and other cities in Kwangtung has increased, and it would be very useful to draw the attention of the Chinese Government to this fact.

If there is a noticeable bank note increase in the Colony it is chiefly due to the smuggling out of HK\$. A reasonable amount of HK\$ for trading purposes in Canton has to be taken for granted. The tendency there to hoard HK\$ alongside with US bank notes may however develop into a very disagreeable position from the point of view of local economy.

Chinese Bank Note Circulation

More than fourteen months after Victory there has not been made any announcement of bank note circulation in China. No official figures regarding the assets and liabilities of the Central Bank of China were released and it looks as if the public has to go on guessing what happens inside the National Treasury and State bank. There are some estimates of CN\$ circulation which were compiled by bankers in Shanghai but many financial observers question them as they believe that the figures are considerably understated.

Circulation of CN\$ in China

August 1945	600 billions
December 1945	1,000 "
June 1946	2,000 "
October 1946	2,800 "

The increase of bank notes from August 1945 (having included the conversion of the puppet CRB\$ into CN\$ at the rate of 200:1) until middle of October 1946 amounts to 370%. While the bank note circulation increased 4.7 times, the general price level in Shanghai increased 17 times during the period Aug. 1945 to Sept. 1946.

True Exchange Rate of CN\$

After the devaluation of CN\$ on Aug. 19 the US\$ rate was appreciated by 65% over the previous official price and 1,000 times of the prewar rate. The general price level, according to Central Bank wholesale price index, showed in July 1946 an increase of 4,148 times against prewar time. On Sept. 6 the official figure (only for raw materials and semi-manufactured goods) for the rise of the wholesale price index was 5,011 times over prewar level. Based on this index and on the assumption that the present price level in U.S. is about 60% higher than in 1941 the parity rate between CN\$ and US\$ ought to be 13,780. However, the index has until beginning of November considerably increased particularly if one takes into consideration general cost of living figures while the depreciation of US\$ is probably to-day not more than 45% against pre-Pearl Harbour days. The parity between CN\$ and US\$ seems to be more in the neighbourhood of CN\$15,000 for one US\$ or about CN\$3,500 for one Hongkong dollar.

Shanghai Waterworks

There has been much agitation about the operation of foreign owned utilities in Shanghai (see Nov. 6 issue, page 8) and popular resentment was created by an irresponsible press in Shanghai. It now turns out that the Waterworks cannot be bought by the Shanghai City Government since the finances of the said City Government are in deplorable condition, with the deficit growing month by month.

The British owned Waterworks' franchise will expire on July 1, 1947, and, according to a contract signed in 1928 with the Shanghai Municipal Council for the duration of 20 years, notice for purchase of the Waterworks by the Municipality must be given by January 1, 1945. Although the Waterworks Co. maintained its right of continued operation since notice had been given too late, viz. in October 1945, by the Chinese successor to the S.M.C. upon instruction of the National Defence Council, the Company was amenable to a purchase agreement. The share capital of the company amounts to £1,100,000 of which the S.M.C. held £400,000, and Taels 2 millions. A purchase price of about US\$11 million was reported as initially offered by the City Government.

Under present conditions it appears likely that Waterworks Co. will sign a new contract for a period of 10 years after expiration of which new purchase negotiations can be started.

Bank Clearings

Further rise in clearing amounts have been recorded during September and October

Month	Clearing amount	Increase in %
September	HK\$364,182,595	10.01
October	" 395,709,187	8.66

Investments in China

In the opinion of Sir Leslie Boyce, head of the British Trade Mission it is under the present economic conditions impossible for China to attract any large flow of foreign capital into this country. The matter of foreign investment in China had been taken up between the Mission and the Chinese Government. Information regarding further discussions on the subject would be made at the conclusion of the tour.

British small ships can be delivered within a short period if China would place the orders for them. Britain was not able to export textile goods, chemicals and raw materials for heavy industries. Textile machinery and goods are controlled by the Textile Supply Committee now in session in Washington.

Britain required food and vegetable oil from China. Britain wants to know when soya beans from North-eastern provinces would be available for export to Britain.

Negotiations on resumption of British shipping in Tsingtao, Chefoo, Tientsin and Hankow are now underway.

Gold

Gold importers are anxious to see the ban on gold imports removed. So far imports from Mexico valued at somewhat less than US\$5 millions have arrived in the Colony. Much of this Mexican gold has been smuggled out of the Colony usually via Macao or Canton. The contention of gold traders is that resumption of gold imports will help bringing down the price of gold on the local market and give business to a number of native banks and brokers. Since Mexican gold purchases have to be paid for from US\$ credits kept in U.S. the question of foreign exchange preservation and control does not arise. Smuggling of gold cannot be prevented, it is true; eventually gold imports into Hongkong will benefit the Chinese gold market provided that higher prices in Canton or Shanghai prevail and thus present an incentive for smuggling. The Shanghai gold market is sensitive to Hongkong gold business and reacts whenever rumours crop up about impending gold imports into the Colony. As matters stand at present no prospects exist for any lifting of the local embargo on gold imports.

Mr J. W. ("Bill") Powell

who visited last week Hongkong coming from Shanghai stated that a strong sense of frustration and disappointment with conditions as they have turned out during this year in China pervades among American and Chinese officials, business men and intellectuals. A certain degree of tension between foreigners and Chinese cannot be denied. Some Chinese resentment is based on inferior and faulty supplies of American goods which has cost a good number of importers a lot of money.

Bill Powell is now at the helm of the frank and outspoken "China Weekly Review" after having served during the war with O. W. I. in the interior provinces of China. His father, Mr J. B. Powell, has returned to New York from Tokyo where he attended war crime trials.

Exchange Markets

The firmness of gold was remarkable during last week. The turnover was large and new buyers came into the market. The highest price for the week ending Nov. 9 was \$323 for one tael. The week opened at \$312 and closed at \$311. The US\$ gold cross rate of the previous week was maintained (US\$56 per oz. or \$70 per tael).

The Chinese dollar improved considerably. Demand increased during the last days of the week under report. While the previous week closed HK\$94 and \$114 for futures and spot respectively the past week closed at HK\$96 and \$119 (for CN\$100,000), establishing a record high price since several weeks past. T.T. rate on Shanghai was on Nov. 9 HK\$118.

The US\$ market was quiet, prices remained unchanged. The unofficial T.T. rate on New York was between HK\$4.60 and 4.65; i.e. about 15% higher than the official rate.

Sterling on the unofficial market was weak. The US\$ cross rate in Hongkong is around 3.50 while in Shanghai sterling sells against US\$ at between US\$3.20 to 3.30.

Chinese bankers believe that conversations between H.K. Govt. officials and Chinese officials arriving here soon from Shanghai will lead to a more satisfactory modus operandi on the CN\$ market.

Exports from Szechuan

(From a Correspondent in Chengtu)

The British Trade Mission has been investigating conditions in Szechuan with a view to increase Chinese exports to Britain. The members of the Mission were given a very cordial welcome in Chungking and Chengtu; especially in the latter city the public was very enthusiastic about the interest taken by British business in China's economy.

Szechuan Produce can be exported in fairly large quantities provided transportation can be made available, its cost limited in keeping with production price of raw materials and produce, and quotations on overseas markets are not dropping further. Merchants offer woodoil, bristles, goatskins, rabbitskins, cowhides (pergament), teas (bricks, and ordinary black and green teas), wool, silk. They are anxious to sell to Hongkong and are hopeful that samples will be found acceptable by the foreign merchants. They realise that the movement of prices on the London market is determining their export chances. Complaints about very high production and transportation costs are general.

Native jewellery is a trade which recommends itself to foreign buyers. Gold and silver smiths are making very attractive articles (like cigarette cases, bracelets, plectrums and all sort of cutlery, ornamental silverware etc.) which compare favourably with those seen in the best shops of Shanghai, Hongkong and Indochina. Prices are considerably lower in Chengtu than in Hongkong. There are some inquiries from Australia and Europe regarding silver ware which may lead to a number of orders from abroad.

Reports from Macao

(By a Correspondent)

Enemy and Traitors Properties in Macao

Before he departed for Lisbon, Macao's last Governor handed over to the representative of Chinese government a list of houses purchased by the Japanese or alleged Chinese collaborators for confiscation. The Chinese government entrusted Central Trust and Custodian of Enemy and Collaborator Property for Fukien and Liangkuan provinces with the task of liquidation.

Among the houses is one magnificent mansion near Government House on the Praia Grande. It belonged to "Admiral" Kan Chih-yuan, Japanese sponsored commander-in-chief of naval forces for South China. Kan's name should be very familiar to those who read his proclamations in all vernacular newspapers in the Portuguese Colony in the early part of 1945 prior to the Japanese surrender. The "Admiral" was perhaps the only Chinese naval commandant whose orders were printed in Macao journals without being restrained.

Other houses to be liquidated were purchased by those who thought Macao would be safer than Hongkong after the Mikado's defeat. They did not realise the situation would be reverse.

Most purchasers of such Macao premises are however now protesting that they were innocent, patriotic, bona fide buyers.

It is understood the new Governor is rather cautious about carrying out his predecessor's decisions.

Collaborators of Isogai, Noma and Tanaka are holding large properties in Macao in trust of their respective beneficiaries, according to popular rumours in Macao.

Wolfram Stocks

Some time ago rumours in Hongkong and Macao had it that Chinese agents were buying wolfram ore on behalf of American companies for shipment to U.S. Rather large quantities of wolfram were smuggled from Yangkong, East River area and other South China places into Macao and Hongkong. The black market price rose from HK\$140 to 220 per picul. The smugglers had their organisation well developed so that no bottleneck in transportation occurred.

It was later disclosed that no American or other European firm was interested in the purchase of wolfram. Chinese speculators were buying up the ore in order to boost the price. They probably thought that the Soviet Commercial Representative in Hongkong would be interested to buy.

The fact remains that there is at present quite a large stock of wolfram available in Macao and Hongkong waiting for buyers to come forward. If the price comes down to world market quotation it may be possible for the overbought wolfram speculators to get rid of their stocks.

Hongkong Land Companies

The building projects of Hongkong Land Investment & Agency Co. have been very much discussed here. They promise to relieve, if not to abolish, the shortage in office space. The modernisation of Central District will largely depend on the plans of the Company.

Conditions after End of War

The Company was fortunate in the extent of war damage to its properties. Although some 135 of its Chinese style tenement houses were destroyed or seriously damaged, the Company has been fortunate in finding the greater part of its properties in fair condition; this applies more particularly to the Central District properties. The greater part of the Company's loss is due more to lack of maintenance during the Japanese occupation than to the ravages of war. The Gloucester Hotel was extremely fortunate and did not suffer any serious loss of either furnishings or equipment. The Hotel was operated by the Japanese as the Matsuhara Hotel.

A number of buildings were partially damaged.

Repairs

will require new capital expenditure and, in some cases, complete re-development. Buildings to which the damage was more of the nature of deferred repairs due to lack of maintenance and looting only minor expenditures will be required.

The Gloucester Hotel, Ballroom and Restaurant were returned after eight months of occupation under Government requisition. Ballroom and Restaurant are now available to the general public as before the War.

Rentals

In spite of very considerably increased operating expenses and maintenance costs, all rentals were, and still are, restricted in accordance with the terms of the Rents Proclamation to those prevailing in 1941.

While the desire on the part of the Authorities to do all in their power to keep the cost of living under control is appreciated it is difficult to reconcile with equity a measure which compels owners of property to accept the 1941 rentals when they themselves are subjected to vastly increased costs. In effect this imposes on them a burden which is tantamount to subsidising the rehabilitation of the Colony. It is hoped therefore that Government will in due course recognise this and take steps to remove this anomaly. Even if it is not removed for residential property, still there is every justification for removing it in respect of property used for commercial purposes.

The prospects for 1946 are obscured by uncertainty as to the continuance of rent control, without any corresponding control over operating costs, but, taking a long view, it is safe to say that the Company is in a sound position and assured of a fair participation in the future prosperity of the Colony.

The Hongkong Realty & Trust Co.

owns buildings and the "Lido" at Repulse Bay which area has been often mentioned as the future holiday and recreation centre of the Far East. Many development plans for erection of modern apartment houses and private residences were discussed but all preparations are still in the blueprint stage.

The Company sold earlier in 1946 six bungalows and an undeveloped property (R.B.L. 367) for a very satisfactory price thus eliminating its overdraft, the interest on which for many years was a great handicap in the operation of the company.

China and Japan

The progress of rehabilitation in Japan, the benevolent policy of U.S. towards its former opponent, and the deterioration of Chinese economy have thoroughly upset Chinese patriots. The importance of Japan's future industries for the whole Far East has been even exaggerated in Nanking and a fear complex of an up-and-coming Japan seems to be developing among the Chinese intelligentsia. Of late the most influential and representative organ of public opinion in China, "TA KUNG PAO" has dealt in many articles with what appears to so many Chinese as the "menace of Japan".

In a recent editorial the paper said:

"Japan has been tightening her belt and quietly making progress night and day. To-day China still experiences the ravages of war. This contrast has made it hard for people to distinguish who is the victor and who the vanquished.

The Japanese understand, and are now making good use of, the aid of the United States. Mr. Atcheson, U.S. representative on the Four-Power Control Commission for Japan, openly admitted: "In effect, Japan's purpose and the United States purpose have become identical." Although the basic policy of the United States toward Japan has not been changed, yet the former has been more and more liberal toward the latter, simply because America has found it useless to aid China. The plan for dismantling Japanese industrial plants and moving same to China has been revised time and again, and the more the plan has been revised, the greater the reservations that have been made. The main cause for this is the civil war in China. In reality, the civil war in China is helping Japan to rehabilitate herself.

The economic situation in Japan is steadily being improved. The Japanese have been making an effort to rebuild their country out of ruins. We can foretell that Japan of the future will still be a menace to China. If this situation is allowed to continue defeated Japan will still play an important role in East Asia. Her industrial products will soon be flooding the Far Eastern market. Her national strength is being steadily restored.

The wrong policy of the United States should be criticised and should be held responsible. The United States has decided upon and been pursuing her national policy in her own interests rather than in those of China. She cannot be expected to change her attitude toward Japan just for the sake of China."

In another editorial the paper dealt with reparations which obviously are not forthcoming although U.S. assistance to China during 1946 was very generous. The paper said:

"From the question of Japanese reparations we can see what the future of the Far East will be like. On this same question, China has betrayed her lack of definite views and lack of strength. It is a mirror which reflects China's present predicament.

The United States has monopolised control of Japan. She has been kind and generous to the Japanese, with the fundamental purpose of nurturing a reactionary force which will be a menace to China. On the question of reparations, General MacArthur has also tried to protect the interests of Japan, and Pauley's plan has now been abandoned. Japan remains the strongest nation in the Far East, and if and when anything happens, her peace industries can be converted into war factories and her merchantmen into warships, so that she will be able to wage aggressive war again both on land and on sea. In peace time, her light and cheap commodities can be sold in the Far Eastern market with perfect freedom.

Such a Japan will not be inimical to the United States trade interests; perhaps she will meet the United States strategic requirements in the Far East. However, it will not be so favorable to China, and our eight years of war of resistance will have been waged in vain. Our national security will be threatened, and our national reconstruction will be facing a powerful enemy.

We demand that through reparations Japanese militarism be uprooted so that Japan become a peaceful, demilitarized country. Our problem now is: How are we going to receive Japanese reparations which should be in the form of industrial equipment?

Japan is making rapid progress and will doubtless resume her aggressions. China's national resources are being destroyed by the Chinese themselves. We demand of Japan adequate reparations which should be devoted entirely to China's industrial reconstruction".

The Chinese paper forest is otherwise much occupied with future development of Sino-Japanese trade. Not much hope is entertained that China will industrialise herself with the voluntary or enforced assistance of Japan. A leading democratic journal opined: "In the matter of Japanese export to China, both the United States and Japan will take the active part while China will take the passive part. At the same time Japanese exports to China will most probably be confined to consumer goods instead of machinery and raw materials urgently needed by China".

Printing Machinery

Except for occasional second-hand linotypes and printing machines, sometimes offered in U.S., no shipment can be expected here for a very long time. British industries have a backlog of about 5 years to cope with which has assumed much larger proportions than were at any time anticipated on account of heavy destructions of European printing industries. U.S. industries in this line are also unable to satisfy Far Eastern markets for the same reason. Orders for 3 years upwards from China and East Asiatic countries have been placed long ago. Demand from Singapore, Indochina and, to smaller extent, Siam seem to prove the upsurge of educational and intellectual life in these places.

Until new machinery arrives, Hongkong as well as Shanghai will have to muddle through, making the best use of locally available repair and maintenance facilities.

A Chinese Linotype

A British printing expert in the Far East invented more than ten years ago a linotype for the Japanese language (reduced number of simplified Kanji and extensive use of Kana) which however was not installed in Japan. A linotype for the use of Chinese newspapers was in the process of development when the war in the Pacific started. This Chinese linotype would, if operated by skilled workmen, enable a 4-page Chinese daily to be set in about two hours.

Index of British Wholesale Prices

(1927=100)

March 1937	87.2
September 1945	119.5
September 1946	129.7

Retail Food Price Index in Britain

(1914=100)

September 1939	135
August 1946	171
September 1946	168
Per cent. increase since Sept. 1939: 22.	

Employment in British Industry

('000 omitted)

Mid-1939	12,425
Mid-1945	11,019
July 1946	11,505

STATISTICS

HONGKONG STOCKS & SHARES

Quotations

	Nov. 2	Nov. 9
H.K. Govt. 4% Loan	\$ 105	\$ 105½
3½% Loan	100	100

Banks

H.K. Bank	\$1,380	\$1,375
H.K. Bank (London Register) ...	£ 84½	£ 86½
Bank of East Asia	\$ 115	\$ 117

Insurances

Canton Ins.	\$ 390	\$ 390
Union Ins.	630	630
H.K. Fire Ins.	275	285
China Underwriters	—	1

Shipping

Douglas	\$ 200	\$ 200
Union Waterboats	16½	16½
H.K. Steamboats	—	12

Docks, Wharves

H.K. & Kowloon Wh. ...	\$ 155	\$ 155
H.K. Docks	18½	18
Providents	13½	13½

Lands, Hotels

H. & S. Hotel	\$ 16½	\$ 16½
H.K. Land	89	88
Humphreys	19½	19½
H.K. Realty	16½	16½
Chinese Estates	140	140

Public Utilities

H.K. Tramways	\$ 29½	\$ 29½
Peak Tram (Old)	9½	11
Star Ferry	67	70
China Light (Old)	12½	12½
H.K. Electric (Old)	35	34
Macao Electric	20	20
Telephone (Old)	36½	36
Telephone (New)	20	20
Yaumati Ferry	—	24

Industries

Canton Ice	\$ 1	\$ 1
Cement	16	16
H.K. Rope	12	11½

Stores

Dairy Farm	\$ 34	\$ 34
Watson	23	23½
Lane Crawford	22½	22

Miscellaneous

Entertainment	\$ 29	\$ 30
Construction (Old)	5	5
China Emporium	—	4½
Sun Co. Ltd. (ex div. 30c.) ..	—	2.70
Kwong Sang Hong	—	130
Sincere	—	6.60
Wing On (H.K.)	—	66

Shanghai Securities Exchange, Ltd.

Chinese Shares in CN\$

Selling price

	Oct. 22	Oct. 29	Nov. 6
Wing On Textile	740	696	644
Mayar Silk	3,890	3,310	3,100
Standard Shirts	265	233	230
Ching Fook Knit	360	224	219
Chin Hsing Knit	175	150	158
China Match	1,350	1,200	1,120
New Asia Chemical	78	73	74
China Textile	425	404	375
China ABC	165	149	147
Wing On Co.	252	220	220

BANK OF ENGLAND RETURNS

HONGKONG COMPANIES SHARE VALUES

NAMES	SHARES	EACH FULLY PAID-UP	PAID-UP CAPITAL	ASSETS	LIABILITIES	SHAREHOLDERS FUNDS	Balance Sheet or Intrinsic Value per Share
Hongkong & Shanghai Banking Corp.	160,000	\$125.00	\$20,000,000	\$1,242,457,957	\$1,096,707,261	\$145,750,696	\$911.00
Hongkong & Whampoa Dock Co. Ltd.	471,976	10.00	4,719,760	13,465,484	5,017,248	8,448,236	17.90
Hongkong & Kowloon Wharf & Godown Co. Ltd.	90,000	50.00	4,500,000	9,668,171	2,152,793	7,515,377	83.50
China Provident Loan & Mortgage Co. Ltd.	442,213	5.00	2,211,065	3,478,160	467,816	3,010,344	6.81
Hongkong Land Investment & Agency Co. Ltd.	300,000	25.00	7,500,000	17,658,097	3,037,374	14,620,722	48.73
Hongkong & Shanghai Hotels, Ltd.	1,193,867	7.50	8,954,002	11,378,940	1,112,236	10,266,703	8.59
China Light & Power Co. Ltd.	2,400,000	5.00	12,000,000	14,307,548	3,689,883	10,617,665	4.42
Hongkong Electric Co. Ltd.	900,000	10.00	9,000,000	15,273,657	2,688,990	12,584,667	13.98
Hongkong Telephone Co. Ltd. Do.	500,000 250,000	10.00 2.50	5,000,000 625,000				12.17 3.04
			\$ 5,625,000	8,914,381	2,066,707	6,847,674	
Hongkong Tramways Limited	650,000	5.00	3,250,000	6,230,758	1,224,565	5,006,192	7.70
"Star" Ferry Co. Ltd.	80,000	10.00	800,000	1,597,029	224,115	1,372,914	17.16
Green Island Cement Co. Ltd.	195,494	10.00	1,954,940	4,695,499	840,176	3,855,323	19.72
Hongkong Rope Mfg. Co. Ltd.	200,000	10.00	2,000,000	2,472,461	370,235	2,102,225	10.51
Dairy Farm, Ice & Cold Storage Co. Ltd.	293,335	7.50	2,200,012	5,811,866	2,141,834	3,670,032	12.51
A. S. Watson & Co. Ltd. ...	150,000	10.00	1,500,000	3,392,489	809,430	2,583,059	17.22

